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August 2, 1990

TO: Wayne Hedberg, Minerals Permit Supervisor

FROM: Steve Schneider, O&G Audit Supervisor *Steve*

RE: 1989 Utelite Financial Statements

I have reviewed the 1989 Utelite financial statements prepared by Lynn M. Carlson & Co., and offer the following comments for your consideration:

Based on my notes from the January, 1990 Board briefing, I believe Utelite has met the Board's requirements for 1989 financial performance.

- The December, 1989 ratio of current assets to current liabilities was maintained at the December 31, 1988 level. This ratio actually improved from 9.61 to 12.39 during the past year, as shown on the attached Utelite Financial Ratio Review.
- The December, 1989 ratio of total liabilities to net worth was maintained at the December 31, 1988 level. This ratio also improved during the past year, from .08 to .04.
- The 1989 financial statements were delivered to the division by the established due date.

As you are aware, the Board established special financial ratio requirements upon Utelite since their original self-bond request did not meet previously established standards for this type of bonding. A review of Utelite's current performance versus the original self-bond standards is as follows.

- Utelite's fixed assets have improved from \$603,208 to \$711,737 in 1989, however this category still falls short of the \$20 million original standard.
- Utelite's tangible net worth has increased from \$1,030,746 to \$1,601,482, however this category is below the \$10 million original standard.

7/27/90

Utelite Income Statement Review

	12/31/88	12/31/89	\$ Diff	% Diff
Sales	2,370,007	3,364,407	994,400	42.0%
Inventory Adjmt	326,830	122,233	(204,597)	-62.6%
Purchases	2,968	889	(2,079)	-70.0%
Direct Labor	393,700	513,145	119,445	30.3%
Plant Power & Util	79,673	98,787	19,114	24.0%
Kiln Fuel	178,927	248,262	69,335	38.8%
Delivery Exp	595,364	1,072,283	476,919	80.1%
Supplies	15,972	23,624	7,652	47.9%
Repairs & Maint	143,342	197,428	54,086	37.7%
Fuel & Oil	26,261	44,695	18,434	70.2%
Raw Material Royalties	15,562	18,023	2,461	15.8%
Lab & Testing	3,602	3,602	0	0.0%
MSHA	327	260	(67)	-20.5%
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Total Cost of Sales	1,782,528	2,343,231	560,703	31.5%
Marketing & Promo	97,308	6,571	(90,737)	-93.2%
Advertising	0	7,546	7,546	100.0%
Employee Benefits	57,342	78,109	20,767	36.2%
Payroll Taxes	36,621	51,911	15,290	41.8%
Travel & Sales	7,161	17,726	10,565	147.5%
Insurance	8,637	9,265	628	7.3%
Telephone	7,235	12,986	5,751	79.5%
Legal & Prof	10,928	18,111	7,183	65.7%
Office Supplies & Postage	9,805	18,082	8,277	84.4%
Taxes & License	20,189	21,831	1,642	8.1%
Auto Allowance & Exp	0	14,212	14,212	100.0%
Miscellaneous	796	791	(5)	-0.6%
Bad Debts	1,055	6,860	5,805	550.2%
Dues, Subscriptions	931	6,894	5,963	640.5%
Training	446	3,127	2,681	601.1%
Depreciation	223,431	211,006	(12,425)	-5.6%
Mgmt & Accounting	4,631	9,705	5,074	109.6%
Rent	0	4,753	4,753	100.0%
Air Pollution Control	6,800	2572	(4,228)	-62.2%
ESCSI	7,690	11,963	4,273	55.6%
Depletion	18,120	75,077	56,957	314.3%
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Total Adm Expenses	519,126	589,098	69,972	13.5%
Interest & Div Income	18,808	30,310	11,502	61.2%
Gain (Loss) on Asset Sale	(5,592)	14,892	20,484	-366.3%
Interest Expense	(15,551)	(2,616)	12,935	-83.2%
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Total Income (Exp)	(2,335)	42,586	44,921	-1923.8%
NET INCOME	66,018	474,664	408,646	619.0%

- The financial statements submitted to the division again are based on a review by a CPA, not an audit in accordance with generally accepted auditing standards. Thus, the division and the Board continue to accept a higher level of risk associated with the integrity of the financial statements. As the director advised the Board in January, this risk is the same as that being assumed by the Office of Surface Mining who accepts a CPA review, unless the company is publicly traded.
- The financial statements submitted to the division are on an income tax basis again this year, versus generally accepted accounting principles. As I advised your section regarding the 1988 statements, Utelite's non-conformance with GAAP doesn't appear to materially impact the financial statements and ratios which our division desires to track.
- Utelite previously did not submit financial statements for the five previous years. A comparison of 1988 and 1989 financial results is now attached. As we add more years, our ability to identify trends and extraordinary account activity will increase. I hope their net income growth will continue, as shown on the attached.

Please let me know if you have further questions.

ldc
Attachment
cc: R. J. Firth
WOI185

7/27/90

Utelite Financial Ratio Review

	12/31/88	12/31/89
Cur Assets/Cur Liab	9.61	12.39
Normal std of 1.2 or greater		
Board req'd 12/88 maintained		
Total Liab/Net Worth	0.08	0.04
Normal std of 2.5 or less		
Board req'd 12/88 maintained		
Fixed Assets	\$603,208	\$711,737
Normal std of \$20 million		
Board did not require		
Tangible Net Worth	\$1,030,746	\$1,601,482
Normal std of \$10 million		
Board did not require		
Net Income	\$66,018	\$474,664
For information only		

	12/31/88	12/31/89	\$ Diff	% Diff
Cash	278,293	425,266	146,973	52.8%
Trade Acct Rec	306,792	417,850	111,058	36.2%
Acct Rec – Western Clay	9,660	0	(9,660)	-100.0%
Employee Acct Rec	230	864	634	275.7%
Mat'l in Process	124,333	2,100	(122,233)	-98.3%
Notes Rec – Current	31,123	4,490	(26,633)	-85.6%
Notes Rec Sharehldr – Cur	0	17,344	17,344	100.0%
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Total Cur Assets	750,431	867,914	117,483	15.7%
Land	84,789	19,991	(64,798)	-76.4%
Buildings	168,503	182,366	13,863	8.2%
Plant Mach & Equip	1,845,927	2,045,240	199,313	10.8%
Pollution Control Eq	178,357	178,357	0	0.0%
Machinery	520,390	553,748	33,358	6.4%
Autos, Trks, Trailers	66,954	71,598	4,644	6.9%
Office Equip	34,863	38,184	3,321	9.5%
Less Accum Deprec	(2,296,575)	(2,377,747)	(81,172)	3.5%
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Total Prop & Equipmt	603,208	711,737	108,529	18.0%
Notes Receivable	49,120	0	(49,120)	-100.0%
Notes Rec – LT	0	27,937	27,937	100.0%
Notes Rec Sharehldr – LT	0	56,162	56,162	100.0%
Other	13	0	(13)	-100.0%
Performance & Pymt Bond	0	7,798	7,798	100.0%
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Total Other Assets	49,133	91,897	42,764	87.0%
TOTAL ASSETS	1,402,772	1,671,548	268,776	19.2%
Cur Portion of LT Debt	75,000	5,000	(70,000)	-93.3%
Accounts Payable	1,352	63,381	62,029	4587.9%
Accrued Payroll Tax	1,377	1,518	141	10.2%
Accrued Interest Payable	335	168	(167)	-49.9%
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Total Cur Liab	78,064	70,067	(7,997)	-10.2%
Long Term Debt	5,000	0	(5,000)	-100.0%
Def Gain on Invol Conv	288,962	0	(288,962)	-100.0%
Common Stock	164,758	164,758	0	0.0%
Premium on Cmn Stk	56,367	56,367	0	0.0%
Treasury Stock	(55,443)	(55,443)	0	0.0%
Retained Earnings	865,064	1,435,800	570,736	66.0%
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Stockholders Equity	1,030,746	1,601,482	570,736	55.4%
TOT LIAB + NET WTH	1,402,772	1,671,549	268,777	19.2%